

VZCZCXRO6974
RR RUEHDA RUEHDE RUEHDH RUEHKUK
DE RUEHBC #0065/01 3630908
ZNR UUUUU ZZH
R 290908Z DEC 09
FM REO BASRAH
TO RUEHC/SECSTATE WASHDC 0952
INFO RUEHGB/AMEMBASSY BAGHDAD 0530
RUCNRAQ/IRAQ COLLECTIVE
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEHBC/REO BASRAH 0990

UNCLAS SECTION 01 OF 03 BASRAH 000065

SENSITIVE
SIPDIS

DEPT PASS TO TREASURY AND TRANSPORTATION

E.O. 12958: N/A

TAGS: [EPET](#) [ECON](#) [EINV](#) [PGOV](#) [SENV](#) [EAID](#) [IZ](#) [EWWT](#) [KCOR](#) [BTIO](#)

OPEC, BEXP

SUBJECT: BASRAH BLACK GOLD RUSH BEGINS: OIL COMPANIES FACE "DOING BUSINESS" PROBLEMS WITH PRT ASSISTANCE

REF: A. BAGHDAD 3257

[1](#)B. BASRAH 63

[1](#)C. BAGHDAD 3196

[1](#)D. BASRAH 59

[1](#)E. BASRAH 36

[1](#)F. STATE 115235

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[1](#)1. (U) This is a Basrah PRT reporting cable.

Summary

[1](#)2. (SBU) With the conclusion of Iraq's second oil bid round, successful bidders and oil-service firms are now increasing their presence in Basrah. Four super giant fields recently awarded at auction lie in Basrah Province - Rumaila, West Qurna (phase I and II), Az Zubair, and Majnoon - and could see tens of billions of dollars in investment in the coming years. While most still need final GOI approval, this has not stopped international oil companies (IOCs) from gearing up for the expected work ahead. IOCs' concerns have shifted from solely security to more "everyday" issues of office/housing shortages, visa and immigration problems, limited air transport options, possible bottlenecks at the Port of Umm Qasr, banking system inadequacies, and difficulties obtaining land. Other major challenges include cleaning up environmental hazards at the oil fields, training thousands of workers, and beginning corporate social responsibility (CSR) partnerships. The Basrah Provincial Reconstruction Team (PRT) has been working with these companies to navigate these and other complex commercial, bureaucratic, and cultural hurdles. Many challenges lie ahead, but climate for business in Basrah has come a long way in just the last several months. End summary.

Oil/service companies converging on Basrah

[1](#)3. (SBU) A who's who of IOCs have reinforced their presence in Basrah in recent weeks including ExxonMobil, BP, China National Petroleum Corporation (CNPC), Royal Dutch Shell, Eni, and Occidental Petroleum (Oxy). Service firms such as Halliburton, Schlumberger, Foster Wheeler, and Dubai-based Terra Seis, and security and consulting firms are arriving or strengthening their presence. With the second oil bid round complete (refs A, C), companies' plans are beginning to take shape. The BP-CNPC partnership has already begun work at the nearby super giant Rumaila field. Other awarded projects are still awaiting final GOI Council of Ministers (cabinet) approval or initialing of the contracts so they can be submitted to the cabinet for final

approval. However, these issues are not preventing any of them from surveying fields, seeking land for compounds, ordering equipment, exploring available legal help, checking on interim housing options, and exploring CSR ideas.

Security and other risks remain . . .

¶4. (SBU) While not discounting the always-present security threat, local observers note a remarkable shift from just a few months ago. Traditional security concerns are slowly being eclipsed by everyday "doing business" problems. Companies appear to possess a guarded confidence about the future. Regarding the security issue, IOC reps are quick to point out that such threats are in the nature of the global oil business. They often point out that they face as challenging or worse security problems in many other oil-producing countries such as Venezuela, Nigeria, Russia, and Saudi Arabia.

¶5. (SBU) Companies reps are also well aware of the significant political, legal, and economic risks that could hamper their ambitious plans. These risks include uncertainty surrounding the elections and a new GOI, the demand by some members of the Council of Representatives (parliament) that the parliament approve the contracts, possible export infrastructure capacity limits, a global drop in demand, and a potential OPEC quota.

But the biggest challenges now are "doing business" problems

¶6. (SBU) Oil and oil-service companies uniformly cite to PRTOffs a list of "doing business" concerns in Basrah. They contend that bureaucratic and infrastructure-related problems could hamper their ambitious plans. The Halliburton Iraq president might have said it best, "It is really Halliburton [to whom] all the oil majors are turning to extract, process, and deliver the oil. We are on the line to provide these services, and we need

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help with our imports, flights, visas, permits, and importing stuff like heavy vehicles, seismic equipment, tubing, and housing equipment." He said, "While South Oil Company (SOC), the Ministry of Oil, and Basrah Investment Commission (BIC) may welcome us with open arms, they are not talking to other [GOI] agencies like Customs, Ministry of Interior, etc." He said that Halliburton is set to invest some \$250 million during the next two years in Basrah. It will invest \$56 million alone for a planned 500-person oil field compound.

¶7. (SBU) The following is a list of common "doing business" problems cited by oil companies:

-- SHORTAGE OF ACCOMODATIONS, OFFICE SPACE: Oil firms complain of a squeeze for secure accommodations and office space, at least until some of them complete planned housing/office compounds. Most visitors stay at one of two very basic "hotels" (containerized units) within the Consolidated Operating Base (COB) at the Basrah Air Base. The COB is also home to the PRT and 34th Infantry Division. Some oil companies also have very limited office space on the COB. Hotel managers report that these are increasingly fully booked and office space is insufficient. Some oil firms are staying at the new three-star Mnawi Basha hotel downtown, but other companies report that their corporate boards still do not allow employees to stay in downtown Basrah.

-- VISAS, AIRPORT IN-PROCESSING PROBLEMS: Company reps widely complain about long delays obtaining Iraqi visas and long in-processing times at the airport. Sometimes visas - usually single-entry - can take several weeks to get. This delay severely affects those who need to frequently visit Iraq.

-- DELAYS AT THE PORT OF UMM QASR: While improved in recent months, many IOC reps still complain of the port's slow processing time and corruption. BP Iraq president said, "I'm less worried about physical or even legal certainty here, and

more concerned about our supply chain."

-- LIMITED AIR TRANSPORT OPTIONS: Presently, of the major regional airlines only Royal Jordanian and Iraqi Airways provide weekly connecting flights to Amman, Baghdad, and Dubai. Several charters and small carriers also fly to regional cities, but oil company reps assess the present volume to be inadequate for future demand. The Basrah International Airport (BIA) manager recently told PRT EconOff that these and other carriers are already discussing new and more frequent flights. It is unclear when and whether these services will meet the expected increase in demand.

-- ANTIQUATED BANKING SYSTEM: Some firms, including Halliburton and Schlumberger, have reported that the Iraqi banking system's payment, Letter of Credit, check issuance, and other services are "totally inadequate." Firms have reported difficulty finding an Iraqi bank capable of efficiently handling transactions for the anticipated millions of dollars of equipment, computers, and salaries.

-- OBTAINING LAND: Many firms are seeking land for sizable housing/office compounds. While the BIC helps with general information and investment licenses, this is not sufficient, as the central government approval is usually required on land transactions.

. . . and cleaning up environmental hazards

18. (SBU) Several oil firms have shared a sobering assessment of what they say will be another major challenge: cleaning up the oil fields that have been neglected for decades. In the course of initial survey work, companies are confronting a "shocking situation" of oil leaks and pools, flared gas, and abandoned rigs. According to U.K.-based Mott McDonald engineers, oil companies will be obliged to clean this up, not only because of their own corporate environmental standards, but because they expect that Iraq and the world will be sensitive to charges that IOCs will "exploit Iraq" and leave environmental hazards in their wake (ref E).

Training a lost generation of workers

19. (SBU) One visiting oil manager said that observing current oil operations and labor and operational practices is like "watching a movie from the 1950s." The Terra Seis company

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manager said that SOC has not done a seismic survey in at least 30 years. Companies are also beginning to grapple with the task of training and certifying potentially thousands of current and future welders, electricians, carpenters, managers, and executives up to international standards. (Note: Oil firms will largely incorporate existing SOC workers into joint ventures and thus have no explicit plans to hire large numbers of new workers. They could eventually hire many more due to demand. End note.)

Companies also looking to win hearts and minds

110. (SBU) All of these firms are exploring how and where they can focus their CSR efforts. According to company reps, CSR is a top headquarters priority. Working with local stakeholders will have a significant impact on their overall success, and they realize that Iraqis are suspicious of their motives. Several IOCs have sought PRTOffs' and USAID representatives' ideas on CSR, including partnering with local NGOs, vocational schools, and Basrah University.

Basrah business climate shows signs of improvement

111. (SBU) Despite complaints about the Basrah business climate,

local officials and the private sector show increased competence. Several oil company reps are unexpectedly pleased by what they say is an improved reception from the Governor, Provincial Council, and the BIC (with whom the PRT works closely) for their "professionalism and assistance." The new SOC Director General (ref D) openly welcomes U.S. and other firms' investment in Basrah. The Terra Seis country manager expressed "pleasant surprise" at how welcoming SOC was to its plan to build an oilfield compound. He signed an MOU at their initial meeting, "something which would not have been possible six months ago." Basrah University, with a dynamic new president, is poised to create entirely new partnerships with oil firms (ref B). The November 2009 Business and Investment Conference in Washington and the PRT's own steady outreach with the local business community and government may have contributed to this apparent improvement (ref F).

PRT Basrah at your service

¶12. (SBU) Many IOCs seek PRT assistance in navigating these myriad commercial, bureaucratic, and cultural hurdles. PRTOffs regularly assist in dealing with the local government and businesses, securing appointments, and providing suggestions on potential CSR projects. The PRT works in conjunction with the Embassy Baghdad Economics section, the Foreign Commercial Service, the Transportation Attache's team, the Basrah-based 34th Infantry Division Civil Affairs team, and the Port of Umm Qasr-based Joint Inter-agency Task Force (JIATF). (Note: While we favor U.S. oil and oil-service firms, for those fields or services not represented by U.S. firms, we assist as part of our overall strategy to see Iraq succeed. End note.)

Comment: Despite the risk, a new optimism is palpable

¶13. (SBU) The PRT detects a growing if guarded optimism among the Basrah business community, government, and most importantly, the populace. Most Basrawis are tired of war and just want to make some money. Despite the ever-present threat of violence, oil companies appear increasingly ready to do business in Basrah. And while the next set of challenges to business-as-usual can at times appear daunting, there is progress. Eighteen months ago Basrah was besieged with militia warfare. Today, business firms and the local government are engaged in heated arguments over land leases and business visas. These are the sorts of conflicts that reflect normalization. End comment.
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